

Message Text

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53

ACTION NEA-09

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TO SECSTATE WASHDC 5696

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TAGS: EFIN, IS

SUBJECT: GOI ANNOUNCES TAX INCREASES

1. FEB 24, GOI ANNOUNCED ESTABLISHMENT OF EMPLOYERS' TAX AND INCREASE OF PURCHASE TAX. ACCORDING TO PRESS REPORTS EMPLOYERS' TAX WILL BE EFFECTTIVE MARCH 1 AT RATE OF 7.5 PERCENT ON ALL WAGES, COST-OF-LIVING ALLOWANCES AND OVERTIME PAYEMTNS, BUT NOT ON FRINGE BENEFITS. GOVERNMENT EXCLUDED FROM TAX; MUNICIPALITIES AND STATE-SUPPORTED INSTITUTIONS WILL RECIEV TAX REFUNDS. ADDITIONAL ANNUAL REVENUE FRM NEW EMPLOYERS' TAX ESTIMATED T IL 1.35 BILLION BEFORE REFUNDS AND IL 950 MILLION NET. EMPLOYERS' TAX WILL BE IN ADDITION TO EXISITING COMPULSORY LOAN OF 4.75 PERCENT ON WAGE PAYMENS AND MUST BE APPROVED BY KNESSET BEFORE IMPLEMENTATION.

2. PURCHASE TAX RAISED BY ADDITIONAL 7.5 PERCENT IMMEDIATELY ON ALL ITMES PREVIOUSLY COVERED BY PURCHASE TAX, I.E., ABOUT ONE-THIRD OF ALL PRIVATE CONSUMPTION. PURCHASE TAX DOES NOT APPLY TO FOOD STAPLES, FUEL INDUSTRIAL EQUIPMENT AND UTILITIES. INCREASE DOES NOT APPLY TO TEXTILES AND CLOTHING BECAUSE OF PRESENT SLUMP IN THESE SECTORS. MOREOVER, INCREASED DOES NOT APPLY TO PRESENT STOCKS. ANNUAL REVENUES GENERATED BY INCREASE IN PURCHASE TAX ESTAIMATD AT IL 980 MILLION. INCREASE IN PURCHASE TAX MUST BE ENDORSED BY KNESSET

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FINANCE COMMITTEE WITHIN 60 DAYS OF IMPLEMENTATION.

3. PRESS ESTIMATES IMPACT OF NEW TAXES ON CONSUMER PRICE INDEX AT FOUR TO FIVE PERCENT WITHIN NEXT TWO OR THREE MONTHS.

4. GOI REPORTEDLY WILL SPEND 20 PERCENT OR IL ONE BILLION, LESS THAN ANTICIPATED APPROPRIATION FOR FIRST QUARTER FISCAL 1976 (APRIL THROUGH JUNE), BY POSTPONING PAYMENTS AND PROJECTS.

5. GOI ALSO ANNOUNCED AVERAGE 20 PERCENT INCREASE IN DOMESTIC POSTAL, TELEPHONE, TELEGRAM AND TELEX RATES. KNESSET APPROVAL REQUIRED BEFORE IMPLEMENTATION OF HIGHER UTILITY RATES.

6. PRESS REPORTS INITIAL HISTADRUT CRITICISM GOVERNMENT ACTION AS BREACH OF UNDERSTANDING REACHED LAST JANUARY WHEN IT AGREED TO EXTEND WAGE CONTRACTS UNTIL JUNE 30. HISTADRUT CLAIMS GOI PROMISED NO NEW TAXES; FINMIN RABINOWITZ REPORTED AS EXPLAINING THAT AGREEMENT WAS FOR NO NEW DIRECT TAXES. EMERGENCY SESSION HISTADRUT EXECUTIVE BUREAU SCHEDULED FOR FEBRUARY 25 TO FORMULATE POSITION, MANUFACTURER'S ASSOCIATION ALSO REPORTED AS ANGERED BY GOI ANNOUNCEMENT AND STATED IT WOULD CAUSE UNEMPLOYMENT AND EMPLOYERS COULD NOT AFFORD TO PAY THE COLA WHICH TAX INCREASES MIGHT NECESSITATE.

7. GOI DECISION TO INCREASE TAXES WAS WELL KEPT SECRET; IT WAS ANNOUNCED IN EARLY HOURS MORNING OF FEBRUARY 24 ONLY SHORT TIME BEFORE FINANCE MINISTER PRESENTED FY-1976 BUDGET TO KNESSET. THEREFORE, NEITHER HISTADRUT NOR EMPLOYEES HAVE HAD TIME TO ORGANIZE THEIR OPPOSITION. EMBASSY WILL COMMENT ON THIS ACTION AS WELL AS FY-1976 BUDGET WHEN MORE INFORMATION BECOMES AVAILABLE.
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